UTAH MUNICIPAL POWER AGENCY

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

June 30, 2006

HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

UTAH MUNICIPAL POWER AGENCY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Utah Municipal Power Agency
Spanish Fork, Utah

We have audited the accompanying balance sheets of Utah Municipal Power Agency (UMPA) as of June 30, 2006 and 2005 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of UMPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UMPA at June 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2006 on our consideration of Utah Municipal Power Agency's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 to 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of UMPA's management. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Changes in Funds Established by the Bond Indenture for the year ended June 30, 2006 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplemental schedule has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Hansen, Barnett + Maxwell

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
September 14, 2006

UTAH MUNICIPAL POWER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of the financial performance and activities of Utah Municipal Power Agency (UMPA or the Agency) for the fiscal years ended June 30, 2006 and 2005. The information presented should be read in conjunction with the basic financial statements and the accompanying notes to the financial statements.

Financial Statements Overview

The Agency operates as a utility enterprise and substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The accompanying basic financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Agency's basic financial statements include the balance sheet, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows.

The balance sheet provides information about the nature and amount of assets and obligations (liabilities) of the Agency as of the end of the year. The statement of revenues, expenses, and changes in net assets reports revenues and expenses for the current year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing activities, and investing activities.

Condensed Financial Statements and Analysis

The following comparative condensed balance sheets summarize the financial position of the Agency for the years ended June 30, 2006, 2005 and 2004:

Condensed Balance Sheets

	2006	2005	2004
Assets:			
Utility plant & equipment, net	$ 19,137,910	$ 19,923,089	$ 20,542,745
Current assets	41,320,089	32,255,061	29,881,204
Deferred charges & other assets	642,240	5,738,331	7,672,230
Total assets	$ 61,100,239	$ 57,916,481	$ 58,096,179
Liabilities:			
Long-term liabilities	$ 42,014,878	$ 44,774,028	$ 47,367,335
Current liabilities	8,118,872	8,092,896	7,473,524
Deferred credits	10,963,139	5,046,207	3,251,970
Total liabilities	61,096,889	57,913,131	58,092,829
Net assets:			
Invested in capital assets, net of related debt	(21,012,969)	(22,385,939)	(23,316,590)
Restricted for debt service	7,527,850	7,481,650	6,933,850
Restricted for rate stabilization	10,615,200	5,046,207	3,251,970
Unrestricted	2,873,269	9,861,432	13,134,120
Total net assets	3,350	3,350	3,350
Total liabilities & net assets	$ 61,100,239	$ 57,916,481	$ 58,096,179

Condensed balance sheets highlights are as follows:

- Utility plant & equipment, net decreased by approximately $785,000 during 2006. This decrease is attributable to the difference of 2005 depreciation in excess of capital additions. Utility plant & equipment, net includes the Agency's 3.75% undivided ownership interest in the Bonanza Unit I, with a historical cost of $27.44 million, and the Agency's 6.25% undivided ownership interest in certain related transmission facilities, with a historical cost of $8.43 million. In 2005, utility plant & equipment decreased $620,000 due to depreciation in excess of capital additions.

- Higher current assets at year-end of $9.07 million is the primary effect of a $5.30 million increase in cash and investments, $3.19 million increase in receivables for member and non-member power sales, and $805,000 higher inventory. The higher inventory valuation is attributable to the additional tons of coal stockpiled at the Bonanza Station. Current assets increased $2.37 million in 2005 due to a $1.89 million increase in cash and cash equivalents and a $576,000 increase in amounts on deposit at the trustee.

- Deferred charges decreased $5.09 million in 2006. Results of operations of $10.94 million represents net revenues to be returned in future billings to members. The impact was a 2006 increase in the Rate Stabilization fund of $5.57 million, an increase in net revenues to be returned in future billings to members of $348,000, and a decrease of $5.05 million in deferred costs to be recovered from future billings to members. Deferred charges decreased $1.93 million in 2005 primarily due to a decrease of $3.65 million in deferred costs to be recovered from future billings to members and an increase in the Rate Stabilization fund of $1.79 million.

- Long-term liabilities decreased $2.76 million in 2006. Long-term revenue bonds outstanding decreased $2.25 million due to classification of the current portion of long-term liabilities and the net effect of bond premium and cost of reacquired debt amortization. Member payables decreased $511,000 due to classification of the current portion of principal payments due next year. Long-term liabilities decreased $2.59 million in 2005.

- Deferred credits increased $5.92 million in 2006. This is attributable to a net increase of $5.57 million in the rate stabilization fund and an increase of $348,000 of the net revenues to be returned in future billings to members. The rate stabilization fund increase was a result of deposits made during the year less funds used for capital replacements at a dedicated resource. The Agency's rate stabilization account may be used to meet unanticipated increases in revenue requirements in subsequent periods or achieve rate stability to members. Deferred credits increased $1.79 million from 2004 to 2005, which represented the net increase in the rate stabilization fund.

- Restricted net assets are comprised of the Bond and Rate Stabilization Funds. The unrestricted net assets are comprised of the Revenue and Repair & Replacement Funds. These funds were created under UMPA's General Indenture of Trust (Bond Indenture) for the Series 2003 Revenue Refunding Bonds. The rate stabilization fund was created by UMPA Board resolution in 1999 and was subsequently incorporated by the Bond Indenture in 2003.

The comparative condensed Statements of Revenues, Expenses, and Changes in Net Assets summarizes the changes in financial position of the Agency for the years ended June 30, 2006, 2005 and 2004:

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	2006	2005	2004
Power sales	$ 67,381,206	$ 58,506,730	$ 53,633,268
Other revenues	2,870,201	497,226	157,924
Operating revenues	70,251,407	59,003,956	53,791,192
Operating expenses	58,041,449	53,458,446	49,819,294
Operating income	12,209,958	5,545,510	3,971,898
Interest income	1,092,881	615,730	425,844
Interest expense and debt related expenses	(2,366,842)	(2,510,047)	(2,619,593)
Other non-operating revenues and expenses, net	(10,935,997)	(3,651,193)	(1,778,149)
Non-operating expenses	(12,209,958)	(5,545,510)	(3,971,898)
Change in net assets	-	-	-
Beginning net assets	3,350	3,350	3,350
Ending net assets	$ 3,350	$ 3,350	$ 3,350

- Operating revenues from power sales increased by approximately $8.87 million between 2005 and 2006. Power sales consist principally of member power sales revenue and power sales to non-members. Revenue from power sales to members increased $1.64 million, or 3.7%, in 2006 as member capacity increased 3.9% and member energy increased 5.4%. Billed rate to members was 1.6% less than the rate in 2005. Capacity and energy not needed for sales to members, in addition to power purchased on the market for resale, are sold to non-members. Energy sold to non-members in 2006 increased 28.4% resulting in a \$7.23 million, or 51%, increase in non-member revenue. The average revenue rate of non-member sales was 18% higher than the previous year. Utilization of available Agency power resources was greater than 99% in 2006.

In 2005, operating revenues from power sales increased by approximately \$4.87 million from 2004 as revenue from power sales to members increased \$1.58 million, or 3.7%, and sales to non-members increased \$3.29 million, or 30%.

- Other operating revenues of \$2.87 million in 2006 consisted of \$2.52 million of proceeds from unused SO2 allowances and a \$353,000 settlement of disputed charges and credits with a counter party. In 2005, other operating revenues included \$435,000 of proceeds from SO2 allowances.

- Operating expenses increased by approximately \$4.58 million between 2006 and 2005. This difference is attributable primarily to dedicated resources, Western Area Power Administration (WAPA), and other power costs.

  Dedicated resource costs decreased by \$1.03 million due to less capital, operation and maintenance costs at the Hunter Unit 1 resource of \$1.45 million. These lower costs were offset by higher fuel costs of \$357,000 due to greater energy production in 2006. Higher costs in 2005 were due to planned and unplanned outage costs at Hunter Unit 1.

  WAPA costs increased \$691,000 in 2005. An increase of \$371,000 was due to 1.67% less energy from this resource in 2006 combined with an approximate rate increase of 9.7% in effect for the entire fiscal year, in comparison to nine months in fiscal year 2005. Additional energy purchased from WAPA was \$318,000 greater than 2005. WAPA costs decreased \$407,000 from 2004 to 2005 as energy output declined 5.5% from the impact of continued drought on the SLIP hydro-resources.

  Other power costs increased \$4.69 million in 2006 and \$2.92 million in 2005. Other power costs consist of UMPA's long-term and firm contracts for power, supplemental power purchased on the market, and transmission. These increased costs are primarily attributable to higher capacity and energy from the Agency's nominated and contractual step-in of the long-term contract with Deseret Generation & Transmission. Other power costs include power purchased for resale to non-members.

- Interest income increased \$477,000 in 2006 and \$190,000 in 2005 due to increasing interest rates and higher cash and investment balances.

Long Term Debt Activity

No long term debt activity occurred in fiscal years 2004 to 2006 other than scheduled debt service. In 2003, UMPA took advantage of low interest rates and current refunded the 1993 Series Revenue Refunding Bonds through the issuance of the 2003 Series Revenue Refunding Bonds. Incidental to the issuance of the 2003 Series, UMPA received an A1 credit rating from Moody's, which has remained unchanged.

Budgetary Highlights

UMPA's Board of Directors adopted a fiscal year 2006 budget with total expenditures of \$58.08 million. Budgeted operating expenses of \$53.82 million and debt service of \$4.26 million. Actual operating expenses were \$57.94 million, \$4.12 million or 7.6% above budget, due primarily to other purchased power costs for non-member sales and unplanned outages. Non-member sales were \$8.99 million above budget.

Economic Factors

The western energy markets have stabilized from the dysfunctional circumstances that existed in the 2000-2001 period; however, wholesale energy prices have continued to rise. UMPA will continue to benefit from a surplus resource portfolio and decrease member cost or enhance the rate stabilization fund through wholesale energy sales. Should the Agency suffer an extended loss of resources, it may be necessary to replace the lost capacity and energy at market wholesale rates which are significantly higher than the current blended cost-based resource mix. Depending on the circumstances, the rate stabilization fund, which was created and funded to mitigate potential market risk, may be utilized to minimize or eliminate the financial exposure.

UTAH MUNICIPAL POWER AGENCY
BALANCE SHEETS

ASSETS

	June 30, 2006	June 30, 2005
Utility Plant and Equipment - Note 1 & 2		
Interest in generating plant	$ 28,554,509	$ 28,363,194
Interest in transmission system	8,430,517	8,374,752
Other utility assets	1,551,520	1,501,470
Less: accumulated depreciation	(19,398,636)	(18,316,327)
Utility Plant and Equipment - Net	19,137,910	19,923,089
Current Assets		
Cash and cash equivalents - Note 3	29,337,221	24,033,835
Accounts receivable		
Member power sales	7,900,570	4,992,437
Non-member power sales	1,385,150	1,103,609
Inventory - Note 1	2,697,148	1,892,060
Prepaid capacity purchase - Note 7	-	193,852
Prepaid Deseret expense - Note 6	-	39,268
Total Current Assets	41,320,089	32,255,061
Deferred Charges and Other Assets		
Capitalized bond issue costs (net of accumulated amortization of $225,944 in 2006 and $159,965 in 2005)	432,913	498,892
Other deferred charges (net of accumulated amortization of $24,673 in 2006 and $13,626 in 2005)	209,327	220,374
Deferred costs to be recovered in future billings to members - Note 4	-	5,019,065
Total Deferred Charges and Other Assets	642,240	5,738,331
Total Assets	$ 61,100,239	$ 57,916,481

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	June 30, 2006	June 30, 2005
Long-Term Liabilities - Note 5		
Revenue bonds payable	$ 37,870,878	$ 40,119,028
Member payable	4,144,000	4,655,000
Total Long-Term Liabilities	42,014,878	44,774,028
Current Liabilities		
Accounts payable	4,176,754	4,407,996
Capacity purchase payable - Note 7	111,293	-
Deseret expense payable - Note 6	51,725	-
Accrued bond interest payable	988,100	1,031,900
Current portion of long-term liabilities - Note 5	2,280,000	2,190,000
Current portion of member payable - Note 5	511,000	463,000
Total Current Liabilities	8,118,872	8,092,896
Deferred Credits - Note 4	10,963,139	5,046,207
Net Assets		
Invested in capital assets, net of related debt	(21,012,969)	(22,385,939)
Restricted for debt service	7,527,850	7,481,650
Restricted for rate stabilization	10,615,200	5,046,207
Unrestricted	2,873,269	9,861,432
Total Net Assets	3,350	3,350
Total Liabilities and Net Assets	$ 61,100,239	$ 57,916,481

The accompanying notes are an integral part of these financial statements.

UTAH MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For the Years Ended June 30, 2006	2005
Operating Revenue		
Power sales:		
Members	$ 45,894,861	$ 44,250,413
Non-members	21,486,345	14,256,317
Other operating revenue	2,870,201	497,226
Total Operating Revenue	70,251,407	59,003,956
Operating Expenses		
Dedicated resource costs	8,647,136	9,672,568
Western Area Power Administration	7,514,602	6,823,361
Generation costs	7,409,106	7,324,503
Other power costs	32,379,629	27,690,751
Depreciation	1,117,141	1,096,033
General and administrative	973,835	851,230
Total Operating Expenses	58,041,449	53,458,446
Income from Operations	12,209,958	5,545,510
Non-Operating Revenue (Expense)		
Interest income	1,092,881	615,730
Interest expense	(2,300,863)	(2,440,275)
Amortization	(65,979)	(69,772)
Revenue to be returned in future periods	(10,935,997)	(3,651,193)
Net Non-Operating Expense	(12,209,958)	(5,545,510)
Change in Net Assets	-	-
Net Assets, Beginning of Year	3,350	3,350
Net Assets, End of Year	$ 3,350	$ 3,350

The accompanying notes are an integral part of these financial statements.

UTAH MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS

	For the Years Ended June 30, 2006	2005
Cash Flows from Operating Activities		
Receipts from members	$ 42,986,728	$ 44,323,910
Other operating receipts	24,075,005	14,968,309
Payments for dedicated resources	(8,988,169)	(9,708,180)
Payments for UMPA resources	(8,123,201)	(7,359,010)
Payments for purchased power	(39,468,248)	(34,590,219)
Payments for other operating expenses	(973,835)	(851,230)
Net Cash Provided by Operating Activities	9,508,280	6,783,580
Cash Flows from Non-Capital Financing Activities	-	-
Cash Flows from Capital Financing Activities		
Bond and note payments	(2,653,000)	(2,049,000)
Interest paid on bonds	(2,312,812)	(2,412,783)
Acquisition of property and equipment	(331,963)	(476,377)
Net Cash Used by Capital Financing Activities	(5,297,775)	(4,938,160)
Cash Flows from Investing Activities		
Interest received on cash and investments	1,092,881	615,730
Net Cash Provided by Investing Activities	1,092,881	615,730
Net Increase in Cash and Cash Equivalents	5,303,386	2,461,150
Cash and Cash Equivalents at Beginning of Year	24,033,835	21,572,685
Cash and Cash Equivalents at End of Year	$ 29,337,221	$ 24,033,835
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities		
Income from operations	$ 12,209,958	$ 5,545,510
Noncash operating activities adjustment:		
Depreciation	1,117,141	1,096,033
Changes in assets and liabilities:		
Accounts receivable	(3,189,674)	288,263
Prepaid expenses	244,167	(225,949)
Inventory	(805,088)	32,151
Accounts payable	(231,242)	155,177
Capacity purchase payable / prepaid	111,293	(80,215)
Deseret expense payable / prepaid	51,725	(27,390)
Net Cash Flows Provided by Operating Activities	$ 9,508,280	$ 6,783,580

The accompanying notes are an integral part of these financial statements.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Utah Municipal Power Agency (UMPA or Agency) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

Organization and Purpose—UMPA, a separate legal entity and political subdivision of the State of Utah, was formed by an agreement dated September 17, 1980, pursuant to the provisions of the Utah Interlocal Co-Operation Act. UMPA's membership consists of six municipalities (the Members). UMPA's purposes include planning, financing, development, acquisition, construction, improvement, betterment, operation, or maintenance of projects for the generation, transmission and distribution of electric energy for the benefit of its Members. UMPA purchased from Deseret Generation and Transmission Co-Operative (DG&T) an undivided interest in the Bonanza Station on December 19, 1985, and began selling power to the Members at that time. The following governmental entities are UMPA Members:

Town of Levan
Manti City Corporation
Nephi City Corporation
Provo City Corporation
Salem City Corporation
Spanish Fork City Corporation

Basis of Accounting—The Agency follows the Federal Energy Regulatory Commission's Uniform System of Accounts and maintains accounting records on an accrual basis, in conformity with accounting principles generally accepted in the United States of America, including the application of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effect of Certain Types of Regulation*, as the statement relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process. The Agency complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 20, the Agency has elected not to follow the guidance of Financial Accounting Standards Board (FASB) statements issued after November 30, 1989.

Cash Equivalents—For purposes of the Statements of Cash Flows, the Agency considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. See also Note 3.

Investments—Investments consist of certificates of deposit, United States Government and government agency securities, and securities allowed according to the State of Utah Money Management Act which are stated at fair value. As discussed in Note 3, all of the investments other than unrestricted funds are restricted as to their use by the General Indenture of Trust, dated as of April 1, 2003, (the Bond Indenture) to Wells Fargo Bank Northwest.

Utility Plant and Equipment—The interest in generating plants consists of (i) a 3.75% undivided ownership interest (representing approximately 17 MW of capacity) in a 458 MW coal-fired generating unit (Bonanza Unit 1) located at the Bonanza Station in northeastern Utah, (ii) a 1.875% undivided ownership interest in certain common facilities constructed to serve both Bonanza Unit 1 and a similar sized unit which may be constructed adjacent thereto (Bonanza Unit 2), (iii) a 6.25% undivided ownership interest in certain related transmission facilities and miscellaneous related rights and interests, and (iv) inclusion of study costs for potential future resources.

The plant is stated at original cost, which represents the actual cost to DG&T of labor, materials, and indirect costs, such as engineering, supervision, transportation, and allowance for borrowed funds used during construction, plus capitalized interest on bonds until the Bonanza Unit 1 was placed in commercial operation.

Furniture and equipment purchased by UMPA are stated at cost.

UMPA uses the following useful lives in depreciating fixed assets under the straight-line method:

Office Building	30 Years
Furniture and Equipment	3 - 7 Years
Interest in Utility Plant	20 - 40 Years

Unamortized Bond Issuance Costs—Unamortized bond issuance costs related to the issuance of the UMPA Electric System Revenue Refunding Bonds 2003 Series A are amortized on the effective interest method over the term of the bonds.

Deferred Charges—Other deferred charges are costs incurred in conducting project feasibility studies.

Taxes—UMPA is not subject to federal or state taxes but has agreed to make payments in lieu of ad valorem taxes to Uintah County in respect of its interest in Bonanza Unit 1. UMPA paid $80,061 to Uintah County during the 2006 fiscal year and $79,069 in fiscal 2005.

Inventory—Inventory consists of the following items:

1. Coal stockpiled at the Bonanza Station. The inventory is valued at lower of cost or market on the moving average basis, valued at $2,424,148 and $1,619,060 at June 30, 2006 and 2005 respectively.

2. Working capital inventory warehoused at Hunter #1 Plant. The inventory is valued at lower of cost or market on the moving average basis, valued at $273,000 at June 30, 2006 and 2005.

Rates—Utah State law provides that UMPA's Board of Directors (Board) has sole authority to establish power supply rates to its Members. In accordance with its Bond Indenture, the Agency shall establish rates which, together with other revenues, are reasonably expected to pay its operating costs (not including depreciation and amortization) and at least 1.00 times its aggregate debt service. Power supply services provided by the Agency are not subject to state or federal rate regulation.

Revenue—The Bond Indenture requires UMPA to fix and collect fees and charges sufficient to meet operating expenses and debt service. UMPA accomplishes this by estimating the current year operating expenses and debt service and then billing the member cities monthly at a rate sufficient to match the estimates plus any Board directed charges (See Note 4). The estimates and billings are updated periodically to reflect the difference between the actual and the estimates.

Deferred Costs to be Recovered in Future Billings to Members—Costs in excess of the amounts currently billable to the Members are to be recovered from future revenues by setting rates sufficient to provide funds for the related debt service requirements. As allowed through the applications of the provisions of SFAS No. 71, current costs in excess of funding are deferred and shown as deferred costs to be recovered in future periods on the accompanying balance sheets and as expenses to be recovered in future periods on the statements of revenues, expenses, and changes in net assets. These costs represent depreciation of electric plant and equipment, amortization of long-term debt issuance costs, amortization of long-term debt premium/discount, gain/loss on disposed assets, and amortization of cost of reacquired debt in excess of amounts currently billed to Members.

Deferred Credits—The Agency designs its electric service rates to recover costs, as defined above, of providing power supply services. In order to minimize possible future rate increases, the Board has adopted a rate stabilization formula whereby each month the Agency collects amounts which are differences between budgeted results of operations and actual results of operations. The Board periodically reviews the amounts collected and may adjust the contribution as they deem prudent. For the years ended June 30, 2006 and 2005, $5,568,993 and $1,794,237, respectively including interest, were contributed to the rate stabilization fund and reflected as an increase in deferred credits reported on the balance sheets. Deferred credits in 2006 include net revenues to be returned in future billings to members.

NOTE 2–UTILITY PLANT AND EQUIPMENT

Capital asset activity for the years ended June 30, 2006 and 2005 is as follows:

	Beginning Balance	Additions	Retirements & Transfers	Ending Balance
Utility Plant and Equipment as of June 30, 2006				
Generating plant	$ 28,363,194	$ 201,813	$ (10,498)	$ 28,554,509
Transmission plant	8,374,752	55,765	-	8,430,517
Other utility assets	1,501,470	74,385	(24,335)	1,551,520
Less accumulated depreciation:				
Generation plant	(13,449,776)	(781,429)	10,498	(14,220,707)
Transmission plant	(4,015,778)	(219,124)	-	(4,234,902)
Other utility assets	(850,773)	(116,589)	24,335	(943,027)
Utility Plant and Equipment, net	$ 19,923,089	$ (785,179)	$ -	$ 19,137,910

	Beginning Balance	Additions	Retirements & Transfers	Ending Balance
Utility Plant and Equipment as of June 30, 2005				
Generating Plant	$ 27,996,905	$ 366,289	$ -	$ 28,363,194
Transmission Plant	8,311,270	63,482	-	8,374,752
Other utility assets	1,463,863	46,606	(8,999)	1,501,470
Less accumulated depreciation:				
Generation plant	(12,675,473)	(774,303)	-	(13,449,776)
Transmission plant	(3,799,635)	(216,143)	-	(4,015,778)
Other utility assets	(754,185)	(105,587)	8,999	(850,773)
Utility Plant and Equipment, net	$ 20,542,745	$ (619,656)	$ -	$ 19,923,089

NOTE 3–CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents as of each year end are detailed as follows:

	2006	2005
Cash and cash equivalents:		
Deposits	$ 537,084	$ 899,350
Investment in the Utah State PTIF	20,963,400	15,455,133
Money market accounts	7,836,737	7,679,352
Total Cash And Cash Equivalents	$ 29,337,221	$ 24,033,835

Deposits—It is the policy of UMPA to invest funds in compliance with state and local laws, regulations, and other policies governing the investment of public funds, specifically according to the terms and conditions of the State Money Management Act of 1974 and Rules of the State Money Management Council as currently amended (the "Act"), and the Agency's own written investment policy. UMPA's bank deposits are covered by federal depository insurance up to $100,000.

The Act requires the depositing of UMPA funds in a "Qualified Depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. All of the Agency's deposits during the years ended June 30, 2006 and 2005 were made with Qualified Depositories.

Deposit Custodial Credit Risk—Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The State of Utah does not require collateral on deposits. As of June 30, 2006, $29,237,221 of the Agency's bank balance was uninsured and uncollateralized and therefore was exposed to some degree of custodial credit risk.

Investments—The Agency may place public money in investments authorized by the Money Management Act (U.C.A. 51-7-11). The Chief Financial Manager shall ensure that all purchases and sales of securities are settled within 15 days of the trade date. In general, these investments can be any of the following subject to restrictions specified in the Act: (1) Obligations of the U.S. Treasury and most Government-Sponsored Enterprises; (2) Commercial paper; (3) Bankers Acceptances; (4) Publicly traded, fixed rate corporate obligations; (5) Certain variable rate securities and deposits; (6) Deposits with the State Public Treasurer's Investment Pool; (7) Certain fixed rate negotiable deposits with a certified depository. The Agency's investment policy does not allow an investment in a master repurchase agreement, a repurchase agreement, or a reverse-repurchase agreement. Further by policy, as measured by cost, no more than 50% of the Agency's portfolio may be invested in any one class of investment. This restriction does not apply to obligations of the U.S. Government and the Utah State Public Treasurer's Investment Fund.

Investment Interest Rate Risk—The Agency's formal investment policy limits investment maturities to a maximum of three years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Forward Delivery Agreements—On July 16, 2003, UMPA entered into a forward delivery agreement for the purchase of Qualified Investments, as defined by the 2003 Series Bond Indenture, for the Series 2003 bond reserve funds. The Qualified Investments delivered under this agreement provide an investment rate of return of 4.33% through January 1, 2018, the term of the agreement.

On November 18, 2003, UMPA entered into a forward delivery agreement for the purchase of Qualified Investments, as defined by the 2003 Series Bond Indenture, for the Series 2003 bond service funds. The Qualified Investments delivered under this agreement provide an investment rate of return of 4.50% through June 29, 2018, the term of the agreement.

Arbitrage Rebate—Under U.S Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. Interest income on bond proceeds which exceeds the cost of borrowing is payable to the federal government on every fifth anniversary of each bond issue. The estimated arbitrage liability is included in accrued liabilities on the balance sheet and the estimated arbitrage expense is recorded as a reduction of interest income. At June 30, 2006 and 2005, the estimated liability is $0 and $0, respectively.

NOTE 4–DEFERRED CREDITS/DEFERRED CHARGES TO BE RETURNED/RECOVERED IN BILLINGS TO MEMBERS

UMPA bills its Members at rates which will provide revenues sufficient to cover the costs of operating and maintaining UMPA and the costs of debt service, but not items such as depreciation, amortization, gains/losses on sale and disposal of capital assets, and deferred credits. This amount represents the unbilled amount of such costs, other charges to Members, and unanticipated revenues which are to be recovered or returned in future billings and are classified as deferred costs or deferred credits in the accompanying financial statements.

UMPA's Board of Directors established a Rate Stabilization Fund (RSF) on September 22, 1999. The purpose of the fund is to set aside funds to assist in maintaining stable rates to Members in the event of unplanned or extraordinary operation, maintenance, or capital replacement costs. The fund can also be used for early retirement of debt. The monthly fund contribution, if any, is the difference between the budgeted results of operations and actual results of operations.

Differences exist between the costs used in the determination of power rates and the revenues and expenses reportable under generally accepted accounting principles (GAAP). No net earnings are reported in the accompanying financial statements because differences described above have been deferred and will reverse when costs included in power rates exceed revenues and expenses reportable under GAAP. These timing differences consist mainly of debt service payments, depreciation, amortization, gains and losses for the sale of assets, unanticipated revenues, and RSF additions and uses. The following is a summary of those differences.

The balance sheet amounts at end of year include the following classifications:

	2006	2005
Deferred Credits		
Designated for rate stabilization	$ (10,615,200)	$ (5,046,207)
Net revenues to be returned in future billings to members	(347,939)	-
Total deferred credits	$ (10,963,139)	$ (5,046,207)
Deferred Charges		
Net costs to be recovered in future billings to members	$ -	$ 5,019,065

NOTE 5–LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2006 and 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities - June 30, 2006				
Long-term revenue bonds	$ 42,170,000	$ -	$ (2,190,000)	$ 39,980,000
Less:				
Current maturities	(2,190,000)	(2,280,000)	2,190,000	(2,280,000)
Unamortized premium, net	2,199,002	-	(240,583)	1,958,419
Unamortized reacquisition cost	(2,059,974)	-	272,433	(1,787,541)
Long-term revenue bonds, net	40,119,028	(2,280,000)	31,850	37,870,878
Long-term member payable	5,118,000	-	(463,000)	4,655,000
Less:				
Current maturities	(463,000)	(511,000)	463,000	(511,000)
Long-term member payable	4,655,000	(511,000)	-	4,144,000
Total long-term liabilities	$ 44,774,028	$ (2,791,000)	$ 31,850	$ 42,014,878

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities - June 30, 2005				
Long-term revenue bonds	$ 43,780,000	$ -	$ (1,610,000)	$ 42,170,000
Less:				
Current maturities	(1,610,000)	(2,190,000)	1,610,000	(2,190,000)
Unamortized premium, net	2,427,405	-	(228,403)	2,199,002
Unamortized reacquisition cost	(2,348,070)	-	288,096	(2,059,974)
Long-term revenue bonds, net	42,249,335	(2,190,000)	59,693	40,119,028
Long-term member payable	5,557,000	-	(439,000)	5,118,000
Less:				
Current maturities	(439,000)	(463,000)	439,000	(463,000)
Long-term member payable	5,118,000	(463,000)	-	4,655,000
Total long-term liabilities	$ 47,367,335	$ (2,653,000)	$ 59,693	$ 44,774,028

Revenue Bonds Payable— On April 3, 2003 UMPA issued $43,780,000 of 2003 Series Electric System Revenue Refunding Bonds (referred to as 2003 Bonds), with an average coupon rate of 4.96 percent to advance refund $45,560,000 of outstanding 1993 Series A Electric Revenue Bonds (referred to as 1993 Bonds). The 2003 Bonds, combined with the fiscal year 2003 annual debt service payments, retired 100 percent of the outstanding 1993 Bonds. The net proceeds of $45,810,894 (including premium of $2,703,218 and reduction for $657,856 cost of issuance) and additional UMPA funds of $547,839 were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2003 call of the 1993 Bonds.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,720,490. This cost of reacquired debt, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using the effective interest method.

The cash outflows without this refund were to be $67,360,038 and the cash outflows as a result of this refund are to be $63,823,939 for a reduction in total debt service payments over the life of the bonds of $3,536,099. The economic gain is $1,987,454 as a result of this refunding.

Maturities and coupon interest rates associated with the 2003 bonds are as follows:

	Due	Amount	Rate	
Remaining 2003 Bonds				
	2007	2,280,000	4.00%	Serial Bonds
	2008	2,365,000	5.00%	Serial Bonds
	2009	2,485,000	5.00%	Serial Bonds
	2010	2,610,000	5.00%	Serial Bonds
	2011	2,740,000	5.00%	Serial Bonds
	2012	2,880,000	5.00%	Serial Bonds
	2013	3,020,000	5.00%	Serial Bonds
	2014	3,175,000	5.00%	Serial Bonds
	2015	3,330,000	5.00%	Serial Bonds
	2016	3,500,000	5.00%	Serial Bonds
	2017	3,680,000	5.00%	Serial Bonds
	2018	3,860,000	5.00%	Serial Bonds
	2019	4,055,000	5.00%	Serial Bonds
Principal Amount		39,980,000		
Unamortized premium		1,958,419		
Unamortized cost of reacquired debt		(1,787,541)		
Total Bonds Payable, net of unamortized premium		$ 40,150,878		
Total Bonds Payable		$ 40,150,878		
Less current portion		(2,280,000)		
Total Long-Term Liabilities		$ 37,870,878		

The Bond Indenture provides that UMPA is not obligated to make payment of the Revenue Bonds from funds other than Pledged Funds, generally defined as: (1) the proceeds from the sale of the Revenue Bonds; (2) revenues from UMPA's electric system and certain investment income; and (3) all funds established by the Indenture.

The Bond Indenture requires that certain funds be established to account for UMPA's receipts and disbursements. The cash and investments held in these funds are restricted for the purposes as stipulated in the Indenture.

Revenue Fund Held by UMPA—This fund receives revenue and pays all costs of operation and maintenance. Funds are transferred to other funds in the following order: Bond Fund, Repair and Replacement Fund, and Rate Stabilization Fund.

Bond Fund Held By Trustee—This fund pays all interest and principal related to the Revenue Bonds. At the end of each month, amounts required to be on deposit are the accrued interest payable, the accrued portion of the next principal installment due, and an amount equal to the largest future annual debt service requirement.

Repair and Replacement Fund Held by UMPA—This fund may be drawn on and used by the Agency for the purpose of (a) paying the cost of unusual or extraordinary maintenance or repairs of the system; (b) paying the costs of any renewals, renovation, improvements, expansion or replacements to the system; and (c) paying the cost of any replacement of buildings, lines, equipment and other related facilities, to the extent the same are not paid as part of the ordinary and normal expense of the operation of the system. The Bond Indenture, and First Supplemental Indenture dated April 1, 2003, do not establish a minimum repair and replacement fund requirement with respect to the 2003 Bonds. The amount in the Repair and Replacement Fund is determined annually by the Board.

Rate Stabilization Fund Held by UMPA—This fund may receive transfers from the net revenues of the Revenue Fund and may transfer amounts to the Revenue Fund to cover any insufficiency. The Board has adopted a formula whereby each month the Agency collects amounts which are differences between budgeted results of operations and actual results of operations. The Board periodically reviews the amounts collected and may adjust the contribution as they deem prudent. Amounts on deposit in the fund may be used for any lawful purpose.

The following table shows debt service requirements:

Year Ending June 30,	Principal	Interest	Total Debt Service
2007	2,280,000	1,930,600	4,210,600
2008	2,365,000	1,825,875	4,190,875
2009	2,485,000	1,704,625	4,189,625
2010	2,610,000	1,577,250	4,187,250
2011	2,740,000	1,443,500	4,183,500
2012 - 2016	15,905,000	4,964,375	20,869,375
2017 - 2019	11,595,000	888,375	12,483,375
	$ 39,980,000	$ 14,334,600	$ 54,314,600

Member Payable—The Agency and Provo City made a joint decision to sell their respective interests in the Cove Fort Geothermal Plant in fiscal year 2003. The sale of the plant will provide a future economic benefit by reduced costs and lower rates to Members. The plant was a resource dedicated to the Agency under the Capacity Purchase Agreement (CPA) between Provo City and UMPA. The Agency reimbursed Provo for actual costs of operating the plant, including Provo's associated debt service on the plant. These costs were operating expenses for dedicated resources on the Agency's financial statements. The sale of the plant removed the resource from the CPA and also the Agency's obligation to reimburse Provo for the remaining debt service. Because of the future economic benefit, UMPA agreed to continue to pay the remaining outstanding debt, less net sale proceeds. The effective interest rate on the payable is 4.86%. These agreed reimbursements are levelized over the remaining debt service life. The resulting loss on sale of the plant of $7,246,317 consisted of $1,270,317 attributed to disposed Agency plant assets and $5,976,000 remaining principal balance payable to Provo City.

The following table shows member payable requirements:

Year Ending June 30,	Principal	Interest	Total Payment
2007	511,000	244,091	755,091
2008	549,000	206,904	755,904
2009	594,000	161,888	755,888
2010	642,000	113,700	755,700
2011	811,000	(55,253)	755,747
2012 - 2013	1,548,000	(37,437)	1,510,563
	$ 4,655,000	$ 633,893	$ 5,288,893

NOTE 6–DESERET EXPENSES

Related Party Transaction—DG&T, which is a joint owner with UMPA and operator of the Bonanza Plant, bills UMPA in advance under DG&T's operating budget for costs expected to be incurred for each month's power usage. The actual costs are finalized two months after the initial billing. At June 30, 2006 and 2005 UMPA had prepaid DG&T for May and June's power usage. Prepayment and actual expenses were as follows:

	2006	2005
Prepayment	$ 1,280,185	$ 1,271,850
Actual expenses	(1,331,910)	(1,232,582)
(Payable) / Prepaid to DG&T	$ (51,725)	$ 39,268

NOTE 7–CAPACITY PURCHASE AGREEMENT

Related Party Transaction—Provo City, a member of UMPA, bills UMPA in advance each month in accordance with a capacity purchase agreement. The actual costs are determined two months after the initial billing. Prepayment and actual expenses were as follows:

	2006	2005
Prepayment	$ 1,014,284	$ 1,558,689
Actual expenses	(1,125,577)	(1,364,837)
(Payable) / Prepaid under Capacity Purchase Agreement	$ (111,293)	$ 193,852

NOTE 8–COMMITMENTS AND CONTINGENCIES

Power Sales Contracts—Power Sales Agreements between UMPA and each of the Members provide that UMPA shall sell and deliver and the Member shall purchase and receive all electric power and energy required by the Member to meet the loads on its electric system. The Power Sales Agreements shall remain in effect through December 21, 2025. The agreements do not specify any particular power supply resource as the source of UMPA's power.

Power Purchase Contracts—UMPA has entered into several power purchase contracts with various terms and conditions. The estimated minimum payments required are summarized below. The Western Area Power Administration (WAPA) contracts provide power and energy through September 30, 2024. UMPA has two contracts with DG&T. One contract is based on a fixed percentage share of the fixed costs of the Bonanza plant over the expected plant life and is estimated to end June 30, 2025. The other contract provides for a predetermined power amount and no associated minimum energy amount from various DG&T resources through December 31, 2019. UMPA has two firm contracts with PacifiCorp. One contract, which expired on June 30, 2005, required a fixed monthly quantity of power to be taken with both a minimum quantity of associated energy. The other PacifiCorp contract expires June 30, 2017, and provides for different minimum power and energy requirements. Contract pricing is fixed for each five-year period with a provision for UMPA to cancel at the end of the such period if better pricing terms are found elsewhere and PacifiCorp elects not to offer a matching price. The next five-year pricing period ends June 30, 2007.

Year Ending June 30,	WAPA	DG&T	PacifiCorp
Actual expenses:			
2005	7,127,816	14,058,029	11,939,226
2006	7,776,391	21,023,435	9,505,189
Estimated minimum payments:			
2007	7,408,022	13,058,400	7,514,275
2008	7,467,925	13,058,400	7,514,275
2009	7,527,868	13,058,400	7,514,275
2010	7,542,438	13,058,400	7,514,275
2011	7,542,438	13,058,400	7,514,275
2012 - 2016	37,712,190	65,292,000	37,571,375
2017 - 2021	37,712,190	49,754,400	15,028,550
2022 - 2025	22,627,314	10,800,000	-

Dedicated Resource Costs—UMPA is has entered into Capacity Purchase Agreements with Levan, Manti, Nephi and Provo as to their existing electric generating capacity. These agreements have estimated remaining facility lives of 10-25 years. Under the Capacity Purchase Agreements, generation capacity and energy from the Members' resources are dedicated to UMPA to meet the load requirements of its Members. The agreements provide that UMPA pays to the Members actual fixed and variable costs associated with the resources. The contracts terms coincide with the Members Power Sale Contracts. Minimum payments are estimated to be:

	Year Ending June 30,	Dedicated Resource Costs
Actual expenses:		
	2005	8,632,380
	2006	7,629,830
Estimated minimum payments:		
	2007	5,495,364
	2008	5,483,148
	2009	5,456,976
	2010	5,424,324
	2011	5,224,468
	2012 - 2016	20,322,004
	2017 - 2021	7,045,244
	2022 - 2025	6,767,720

NOTE 9–EMPLOYEE PENSIONS

UMPA's Board of Directors has adopted a pension plan which provides for retirement contributions equal to 17.9% of all full-time employees' annual wages. For fiscal year ending June 30, 2006, an 11.09% contribution was made to Utah State Retirement Systems (USRS), a defined benefit plan, and the remaining 6.81% was contributed to the employee's 401(k), a defined contribution plan. The employee's 401(k) plan is administered by either the USRS or Evergreen Funds. Certain wages, such as annual sick leave payouts not earned in the current year and retirement benefit payouts, are not subject to USRS defined benefit plan contributions. In such instances, the full 17.9% retirement contribution is deposited in the employee's 401(k) plan.

The USRS, of which UMPA is a member, are multiple employer, cost sharing retirement systems providing refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes. These benefits are based on years of service and highest average salaries. These systems cover substantially all eligible public employees of UMPA and educational employees, as well as participating local governmental entities.

UMPA is legally obligated to contribute to the retirement system as long as they have employees meeting membership requirements. The contribution rates are the actuarially determined rates. The contribution requirements of the USRS are authorized by statute and specified by its board. The contribution rates in effect from July 1, 2003 through June 30, 2006 applied to the qualified total salary for eligible employees are as follows:

	Contribution Rates		
	2006	2005	2004
USRS Non-contributory	11.09%	11.09%	9.62%
USRS or Evergreen Funds 401(k)	6.81%	6.81%	8.28%

All contributions by UMPA for the years ended June 30, 2006, 2005 and 2004 were paid by the due dates or within 30 days thereafter. The total salaries and the amount of employer's contributions paid during the year are as follows:

	2006	2005	2004
Total salaries	$ 1,337,523	$ 1,283,989	$ 1,235,623
Total salaries subject to USRS retirement contributions	$ 1,313,571	$ 1,283,989	$ 1,235,623
Employer contributions - USRS	$ 145,675	$ 142,394	$ 118,867
Employer contributions - 401(k)	$ 93,742	$ 87,440	$ 102,310
Employee contributions - 401(k)	$ 11,445	$ 12,864	$ 13,080

The Utah State Retirement Systems are established and governed by the respective sections of Chapter 49 of the Utah Code, Annotated 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issued a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and Firefighters Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 560 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

NOTE 10–RISK MANAGEMENT

The Agency is subject to various risks of loss related to general liability and property insurance. The Agency has purchased commercially available indemnity insurance to cover these risks. The deductible amounts for this insurance would be immaterial to the Agency. The amount of insurance settlements has not exceeded insurance coverage in the past three years.

UTAH MUNICIPAL POWER AGENCY
SCHEDULE OF CHANGES IN FUNDS
ESTABLISHED BY THE BOND INDENTURE
FOR THE YEAR ENDED JUNE 30, 2006

	Revenue Fund	Bond Fund	Repair & Replacement Fund	Rate Stabilization Fund	Total
Balance July 1, 2005	$ 10,305,978	$ 7,481,650	$ 1,200,000	$ 5,046,207	$ 24,033,835
Additions and Transfers					
Investment earnings	1,092,881	-	-	-	1,092,881
Power sales and other receipts	67,061,733	-	-	-	67,061,733
Transfers (to) from other funds	(10,118,005)	4,549,012	-	5,568,993	-
Total Additions and Transfers	58,036,609	4,549,012	-	5,568,993	68,154,614
Deductions					
Operating & Maintenance Expenses	57,553,453	-	-	-	57,553,453
Purchase of Capital Additions	331,963	-	-	-	331,963
Interest Expense	-	2,312,812	-	-	2,312,812
Bond Principal Payments	-	2,190,000	-	-	2,190,000
Note Principal Payments	463,000	-	-	-	463,000
Total Deductions	58,348,416	4,502,812	-	-	62,851,228
Balance June 30, 2006	$ 9,994,171	$ 7,527,850	$ 1,200,000	$ 10,615,200	$ 29,337,221

UTAH MUNICIPAL POWER AGENCY

SUPPLEMENTAL REPORT IN COMPLIANCE WITH GOVERNMENT AUDITING STANDARDS AND STATE OF UTAH LEGAL COMPLIANCE

June 30, 2006

HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

UTAH MUNICIPAL POWER AGENCY
SUPPLEMENTAL REPORT IN COMPLIANCE WITH
GOVERNMENTAL AUDITING STANDARDS
AND STATE OF UTAH LEGAL COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Utah Municipal Power Agency
Spanish Fork, Utah

We have audited the financial statements of Utah Municipal Power Agency, as of and for the year ended June 30, 2006, and have issued our report thereon, dated September 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Utah Municipal Power Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Utah Municipal Power Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Utah Municipal Power Agency, Board of Directors, management, members, and applicable government agencies.

Hansen, Barnett + Maxwell

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
September 14, 2006

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UTAH STATE COMPLIANCE REPORT BASED ON THE REQUIREMENTS, SPECIAL TESTS AND PROVISIONS REQUIRED BY THE STATE OF UTAH'S LEGAL COMPLIANCE AUDIT GUIDE

To the Board of Directors
Utah Municipal Power Agency
Spanish Fork, Utah

We have audited the financial statements of the Utah Municipal Power Agency (the Agency), for the year ended June 30, 2006 and have issued our report thereon dated September 14, 2006. Our audit included test work on the Agency's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Cash Management
Purchasing Requirements
Budgetary Compliance
Special Districts
Other General Compliance Issues

The Agency did not receive any major or nonmajor State grants during the year ended June 30, 2006.

The management of Utah Municipal Power Agency is responsible for the Agency's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards,* issued in by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with requirements referred to above.

In our opinion, the Utah Municipal Power Agency, complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2006.

Hansen, Barnett + Maxwell

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
September 14, 2006

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To the Board of Directors and Management
Utah Municipal Power Agency

In planning and performing our audit of the financial statements of Utah Municipal Power Agency (UMPA) for the year ended June 30, 2006, we considered its internal control structure in determining our auditing procedures. We do this for the purpose of expressing our opinion of the financial statements rather than to provide assurance on the internal control structure. We did not note any matters involving the internal control structure and its operation which we consider to be material weaknesses under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A *material weakness* is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We encourage the board to continue its oversight of the management and financial activities of UMPA. This is an important and integral part of the organization's control structure. Management should continue to provide the Board with whatever relevant information it may request as well as perform those duties at the board's direction.

In the course of our audit in accordance with generally accepted auditing standards, we performed an internal control walk through which included a discussion with certain employees about any knowledge or instances of fraud. We also selected samples of cash disbursements and cash receipts for testing to determine if the sampled items were authorized and transacted in accordance with established policies and procedures. Cash disbursements were tested for attributes including proper authorization, supporting documentation, appropriate signatures, appropriate payees, and appropriate classification within the general ledger accounts. Cash receipts were tested for appropriateness and for proper coding within the general ledger accounts. Cash receipts were also tested for compliance with particular State compliance matters as dictated by the *State of Utah Legal Compliance Audit Guide.* Other matters were also tested for compliance with that guide. In addition, certain testing was performed to satisfy the requirements of *Government Auditing Standards.* In connection with the testing to satisfy State and Federal requirements, we issued separate reports as required by those standards. No significant exceptions were noted.

This report is intended solely for the information and use of Utah Municipal Power Agency, Board of Directors, management, members, and applicable government agencies.

Hansen, Barnett + Maxwell

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
September 14, 2006